



**REPORT OF THE MONITORING, EVALUATION, FINANCE AND AUDIT  
(MEFA) COMMITTEE**

**Outline:** This report from the MEFA Committee highlights its key deliberations, pending actions and its recommendations to the Board.

**Summary of Decision Points:**

It is recommended that the Board approve the following recommendations by the MEFA Committee:

1. Regarding 2002 External Audit (Part 2):
  - a. The Board is asked to approve the MEFA Committee recommendations as presented in Part 2, including recommendations on future audit contents, terms and approval processes.
2. Regarding the 2003 Mid Year 2003 Budget/Work Plan Review and Yearend Forecast (Part 3):
  - a. The Board is asked to take note of MEFA's findings and its request for information on staffing and travel to be reviewed at MEFA's next meeting in October.
3. Regarding the 2004 Budget – Preliminary Estimates (Part 5):
  - a. The Board is asked to approve the 2004 budget (to be presented to the Board at its October meeting) on a preliminary basis and to further ask the MEFA Committee to revise this budget according to final LFA cost estimates by end of year.
  - b. The Board is also asked to approve MEFA's recommendation (to be presented to the Board at its October meeting) on a range of transfer authority between Secretariat budget line items (similar to International Organizations), whereby the Secretariat would be required to receive authority for such transfers from MEFA.

4. Regarding the Report on Grants in Excess of Amounts Advised to Board at Time of Approval (Part 6):
  - a. The Board is asked to take note that the MEFA Committee has reviewed the findings, takes them seriously, finds that the Secretariat acted on good faith, that corrective actions are and must take place and that the MEFA Committee will review evidence of these corrective actions at their meeting in October.
  - b. The Board is asked to approve the correction of the amounts previously recorded as approved by the Board, in these cases, to reflect the Board's overall decision to approve the first two years of each proposal, thus endorsing the amounts agreed to in the grant agreements.
  
5. Regarding the Monitoring and Evaluation Strategy, Part 8 (Board Document GF/B6/11):
  - a. The Board is asked to endorse the Monitoring and Evaluation Strategy document GF/B6/11, which includes the revisions requested in Part 8 of this report.
  - b. The Board is asked to note the MEFA Committee's request for an annual Operations Plan for implementation of the M&E Strategy, the 2004 plan to be completed by the end of calendar year 2003 and to include details and timelines listed in Part 8 of this report.

**Part 1: Call to Order and Approval of Previous Meeting Report and This Meeting's Agenda**

1. The meeting of the MEFA Committee was called to order by the new chair, Ms Sigrun Mogedal from Norway. (Attendance in Attachment A) The report from the previous 4 June 2003 meeting was approved.
2. The agenda for the 8 September 2003 meeting was approved with the replacement of the agenda topic on Consultant Fees with the topic Report on Grants in Excess of Amounts Advised to Board at Time of Approval and the addition of the agenda topic on External Studies (Agenda in Attachment B).
3. The following parts review the key findings and recommendations of the Committee, following the approved agenda.

**Part 2: External Audit Findings**

1. Having reviewed the Audited Financial Statements for 2002 and the audit report and management letter of the external auditors, Ernst & Young, MEFA takes note that:
  - a. The financial statements were prepared in compliance with International Financial Reporting Standards and were audited by the duly appointed external auditors in accordance with International Auditing Standards.
  - b. The external auditors issued an unqualified report on the financial statements.
  - c. The issues raised in the management letter by the external auditors raised no matters that gave cause for concern.
2. The MEFA committee supports the approval by the Board of the 2002 audited financial statements and directs the Secretariat to implement the corrective actions as described by the auditor in their management letter, except changing the method by which equipment is expensed.
3. The MEFA committee also recommends that future audited statements reflect the different forms of contributions (e.g. cash, promissory notes and contribution commitments) and that Secretariat analyses include prior year comparisons of financial indicators.
4. MEFA recommends the designation of a sub-committee of MEFA to review and revise, as appropriate, the terms of reference for the 2003 audit of the financial statements to explore: 1) an evaluation of financial and operational controls and practices; 2) assessing and advising on the

fiduciary arrangements at the country level and 3) the financial performance of certain grants considered to be problematic.

5. Regarding the approval process for audited financial statements, the MEFA committee recommends against the practice of using email. The rationale for approving the 2002 statements via email is understood, however, a 2/3 majority vote for the North and South must be achieved by actual affirmations.
6. It is also recommended that the draft of the auditor's report be presented by the external auditor to the MEFA committee and that the Board approve the financial statements no later than March of the following year.

### **Part 3: Mid Year 2003 Budget/Work Plan Review and Yearend Forecast**

1. Having reviewed the Work Plan and Budget performance Report for the first half of 2003 and the Forecast of Operating Expenses for the whole year, MEFA takes note that:
  - a. Total operating expenses are within budget for the first half of 2003 at 46% of the annual budget and are expected to be on budget at yearend, with the caveat that LFA actual costs are difficult to accurately forecast at this time.
  - b. Work Plan end products are generally on-track, although resource mobilization, grant agreement signings, monitoring and evaluation, communications and performance-based disbursements need to be the focal activities for the rest of the year.
2. The MEFA Committee asks the Secretariat to report on the following operating expenses at their next meeting in October:
  - a. Staffing, including numbers of permanent, temporary and contract staff and seconded positions (funded and not funded by the Global Fund), skills mix, diversity and actual salary ranges.
  - b. Travel.

### **Part 4: Operating Expense Indicator**

1. After reviewing the results of two options of measuring the effectiveness of operational expenses, the Secretariat is asked to calculate for MEFA the operational ratios: % of disbursements; % of total expenditures; % of actual expenditures; % of actual expenditures expended by the grantees.

## **Part 5: 2004 Budget – Preliminary Estimates**

1. MEFA takes note that preliminary estimates suggest a budgetary need of US\$49.8 million for 2004, reflecting:
  - a. Secretariat expenses of US \$23.2 million (similar to 2003) and LFA fees at US\$26.6 million (a potential increase of US\$10.2 million due to a full year of LFA operations and additional Principal Recipients from Rounds 3 and 4 and subject to a more accurate estimation later in 2003).
2. To assure the Board receives a well informed 2004 budget recommendation from MEFA at their October meeting, the Secretariat is asked to present to the MEFA Committee in October a comprehensive budget for 2004, including an estimate of available resources for the budget year.
3. Due to the fact that there will be incomplete information on LFAs by October, MEFA will recommend to the Board in October that they approve the 2004 budget on a preliminary basis and that they further ask the MEFA Committee to revise the budget according to final LFA cost estimates by end of year.
4. To better monitor the potential of large transfers of budgets within the Secretariat's budget lines, **MEFA recommends to the Board that a range of transfer authority be established (similar to International Organizations), whereby the Secretariat would be required to receive authority for such transfers from MEFA.** The Secretariat is asked to propose transfer limits and a process for the Secretariat budget to the MEFA Committee in October, which may include a distinction between strategic versus operational transfers.

## **Part 6: Report on Grants in Excess of Amounts Advised to Board at Time of Approval**

1. MEFA takes serious note of the report on seven Round 1 grants which were signed for amounts that exceeded the amounts advised to the Board at the time of approval. While MEFA is displeased with this outcome, it recognizes that the Secretariat acted in good faith. Upon careful review of the events, causes and corrective actions:
  - a. MEFA notes that the amounts signed in the grant agreements were consistent with the Board's decision to approve grants "... for the first two years of each proposal".
  - b. MEFA recommends to the Board that the amounts recorded as approved **by the Board in these cases be corrected to reflect the**

**Board's overall decision to approve the first two years of each proposal, thus endorsing the amounts agreed to in the grant agreements.**

- c. MEFA notes that the Executive Director and the Secretariat have taken corrective actions to prevent such future occurrences and asks the Secretariat to detail these actions and process improvements by its October meeting, including the provision of evidence of these actions.

**Part 7: LFA Tender Review**

1. The LFA Tender process was reviewed by the MEFA Committee, the progress to date showing 10 LFA vendors pre-qualified for framework contracts and to move into competitive bids for subsequent country specific work orders.
2. With some concern expressed about the principle of using "best value" (a decision made on the levels of quality and price), it was acknowledged that work orders would be awarded based on Best Value and that the results of this selection would be reviewed with MEFA at their October meeting.
3. It was further acknowledged that references from CCMs would be considered in the work order deliberations.

**Part 8: Revised Monitoring and Evaluation Strategy and Plan**

1. There is an urgent need by both grantees and stakeholders for further guidance on monitoring and evaluation of the Global Fund. This information is particularly needed to describe the ongoing assessment of the Secretariat's functions, the review of country program progress and impact, and the parameters for recommending further funding of grants.
2. MEFA recommends the endorsement of the Monitoring and Evaluation Strategy (forwarded in Board Document GF/B6/11), with the following revisions to be completed before the October meeting of the Board:
  - a. A more concise document in order to avoid repetition and clarify principles and the overarching objectives of the proposed monitoring and evaluation system for the Fund.
  - b. A more detailed description of the concept and principles of additionality.

- c. Assurance of the integrity and independence of the Fund's monitoring and evaluation process through a more detailed discussion. It should include a description of the roles and responsibilities of the M&E Unit within the Secretariat, the methodologies it will use, and the reporting structures vis a vis the Executive Director, the MEFA Committee, and the Board.
  - d. Reference to two key additional documents, "Guidelines for Performance Based Disbursement" and "Guidelines to Principle Recipients on Monitoring and Evaluation", only summarizing information already contained in these documents in the Strategy.
  - e. A discussion on the importance of data quality and reliable collection mechanisms as part of M&E plans to assist portfolio managers as they negotiate grant agreements.
3. In addition, the Secretariat (Monitoring and Evaluation Unit) will prepare and present an annual Operations Plan for implementation of the M&E Strategy to the MEFA Committee for review and approval by the end of calendar year 2003. The plan for 2004 would include a description of the details and timeline for the following:
- a. Prioritization and implementation of evaluations of the key performance areas for the Global Fund.
  - b. A description of the Secretariat's review process for Periodic Disbursement Reports and Progress Updates, Fiscal Year Progress Reports, and Requests for Continued Funding, with a focus on the methods envisioned to assess data quality, provide feedback to grantees, and most importantly, the criteria for determining the ongoing funding of grants.
  - c. Further guidance on the selection of indicators, with particular attention to harmonizing with ongoing global initiatives.

**Attendance**

Members/Alternates

Mr Jerome Baconin  
Dr Massimo Barra  
Dr Paul DeLay  
Mr Paul Ehmer  
Dr Maurice Fezeu  
Mr Shri Deepak Gupta  
Ms Milly Katana  
Ms Kyung Hee Kim  
Ms Sigrun Mogedal  
Mr Alastair Robb  
Mr Massimo Tommasoli  
Prof. Wim Van Damme  
Dr Wenjie Wang

Secretariat

Mr Barry Greene  
Mr Brad Herbert  
Ms Hilary Hughes  
Ms Patricia Kehoe  
Ms Dee Jay Mailer  
Ms Marie Rosencrantz

Guests

Mr Keith Jay  
Mr Kris Paneels  
Dr Bernhard Schwartlander  
Mr Bill Steiger

**MONITORING, EVALUATION, FINANCE AND AUDIT COMMITTEE (MEFA)**

**5th COMMITTEE MEETING**

**Monday 8 September 2003 0900-1700**

**Ramada Hotel  
Cointrin-Geneva**

**Agenda**

- I. External Audit Findings Update
- II. Mid Year 2003 Budget/Work Plan Review
- III. 2004 Budget Preliminary Projections
- IV. Grant Agreements Signed in Excess of Board Approval
- V. Funding Guidelines Preparation for 9 Sept Joint Meeting
- VI. LFA Tender Review Update
- VII. External Study Update
- VIII. 14 October, Chiang Mai, Thailand Meeting Agenda (approved)
  - I. Proposal Round Updates: Case Presentations on Performance-Based Disbursement
  - II. M&E Strategy and Plan
  - III. Proposed External Studies Framework
  - IV. Secretariat Practice Report: Implementation of Consultant Fee Schedule and Procurement Policy
  - V. 2003 Secretariat Staffing Report
  - VI. 2004 Preliminary Detailed Budget Review